

U.S. Tobacco Sector Regroups

Ken Hammond, USDA

The USDA tobacco program, a fixture in Southeast agriculture since the 1930s, was terminated at the end of the 2004 crop year. With the 2005/06 crop year underway, the tobacco sector is entering a new era of minimal government intervention. Growers and buyers of tobacco are adapting to changes triggered by the lifting of the restrictions, including a 27-percent decline in production.

During the first post-program crop year, tobacco acreage decreased by 25 percent to 307,010 acres, the lowest level since before the Civil War. Tobacco production declined to 640 million pounds, the lowest level since 1879. Although precise figures are not available, industry sources report that the number of producers has dropped by more than half. Still, many remaining tobacco growers expanded operations. Some minor tobacco types, such as Northern Wisconsin cigar binder and Virginia sun-cured, are not being produced at all for the first time in over 100 years.

Following the lifting of geographical restrictions imposed by the program, tobacco production remains emphatically a Southeastern crop, although production of some types has shifted within the Southeast and even to the mid-Atlantic region. Pennsylvania producers who had previously planted cigar and Maryland leaf types are now growing burley for the first time. Some flue-cured producers in North Carolina and other States, where only flue-cured tobacco was grown, are adding burley to their crop mix.

The switch to burley is influenced by increased global demand due to changing world tastes in cigarettes. American-blend cigarettes, which contain both flue-cured and burley leaf, have replaced indigenous cigarette types containing either all flue-cured or all dark tobaccos. Higher global demand for burley has spurred production increases in a number of countries, including Brazil and Argentina, but U.S. burley remains a force in the world market. In addition, production costs are lower for burley, which is air cured, than for flue-cured, which is cured under heat provided by natural gas.

With the end of the tobacco program, U.S. tobacco production is likely to decline for a few more years. After this adjustment period ends, U.S. producers will be fewer in number, but they will be more competitive in domestic and world markets than previously. As prices fall, demand for U.S. tobacco will increase, and in the long run, production should slowly increase as well. *W*

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This finding is drawn from . . .

Tobacco Situation and Outlook Yearbook, by Thomas Capehart, TBS-2005, USDA, Economic Research Service, December 2005, available at: www.usda.mannlib.cornell.edu/reports/erssor/specialty/tbs-bb/2005/tbs2005.pdf